

Comptroller's Directive No. 2-04
Attachment 17
Internal Service Funds – Conversion to Government-wide
Statement of Activities

Purpose

GASBS No. 34 states that internal activity and balances should be eliminated from the Government-wide Statement of Activities. This elimination should remove the “doubling-up” effect of reporting the original disbursement activity in the paying funds and in the internal service fund. The following spreadsheets have been developed to eliminate the internal activity. They are as follows:

- Summary of Revenue by State Agency – Internal Activity (Part 1)
- Summary of Revenue by External Party – (Part 2)
- Schedule to Eliminate the Effect of Internal Service Fund Activity for the Government-wide Statement of Activities (Part 3)
- Control Sheet (Part 4)
- Revision Control Log

Note: Part 3 follows exercise #4 on pages 224 – 231 in the 1st Implementation Guide for GASBS No. 34. It would be helpful to review this exercise before completing Parts 1 to 3. This attachment is similar to the prior year's Attachment 18.

Due to

August 26, 2004

Applicable agencies

This attachment is applicable to the following agencies and their internal service funds. ***Each agency will need to complete a separate template if there is more than one internal service fund, unless otherwise noted below.***

<i>Agency</i>	<i>Fund</i>
Department of General Services	Fleet Management, Maintenance & Repair, Virginia Distribution Center, Property Disposal, State Surplus Property, Federal Surplus Property, Consolidated Laboratory, Graphic Communications, Engineering Services
Department of Human Resource Management	Workers Compensation & the Health Insurance Fund
Department of the Treasury	Risk Management
Virginia Correctional Enterprises	All
Virginia Information Technologies Agency	Aggregate all internal service funds.

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**Submission
requirements**

Contact DOA if the agency has any problems with the files.

Separate files have been created for each agency to mirror the templates.
Below are the agencies and the corresponding file name.

Submit the excel spreadsheet electronically to finrept@doa.virginia.gov.

Copy APA via E-mail to APAFinRept@apa.state.va.us.

Do not submit paper copies of the excel attachment.

<i>Agency/Fund</i>	<i>File Name</i>
Department of General Services: Consolidated Laboratory Water Testing Engineering Services Federal Surplus Property Fleet Management Graphic Communications Maintenance & Repair Property Disposal Service State Surplus Property Virginia Distribution Center	194Att17-Consolidated Labs.xls 194Att17-Engineering Services.xls 194Att17-Federal Surplus Property.xls 194Att17-Fleet Management.xls 194Att17-Graphic Communications.xls 194Att17- Maintenance & Repair.xls 194Att17-Property Disposal.xls 194Att17-State Surplus Property.xls 194Att17-VA Distribution Center.xls
Department of Human Resources Management Workers Compensation Health Insurance Fund	129Att17-Workers Comp.xls 149Att17-HIF.xls
Department of the Treasury	152Att17-Risk Management.xls
Virginia Correctional Enterprises	711Att17-VCE.xls
Virginia Information Technologies Agency	136Att17-VITA.xls

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**Attachment
revisions**

If attachment revisions are made subsequent to DOA acknowledgement of receipt and acceptance of the original attachment submission, **resubmit the revised attachment AND complete the Revision Control Log Tab in the attachment excel file.**

Enter the revision date, applicable excel file tab name, row number and column letter revised, and the previous and revised information. Document text changes and numerical changes. Only enter changes for amounts actually keyed. For example, if a non-keyed, calculated total changes as a result of the revision, this does not need to be documented on the Revision Control Log.

If the attachment is revised more than once, do not delete control log revision information from the previous revision. Enter the new revision date and the additional revisions in the rows following the initial revision rows. This log should document all revisions from the initial attachment submission.

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Internal Service Funds – Conversion to Government-wide Statement of Activities

Overview

A Government-wide Statement of Activities MUST be presented in the Commonwealth's CAFR. Internal service fund agencies are not required to prepare a Statement of Activities. Therefore, the Financial Reporting Unit must obtain information to convert the Statement of Revenues, Expenses, and Changes in Fund Net Assets to the Government-wide Statement of Activities format. Internal activity must be eliminated. This elimination should remove the "doubling-up" effect of reporting the original disbursement activity in the paying funds and in the internal service fund. In summary, this conversion requires the following:

- Only external and nonprogram activity must be reported as revenues and expenses or transfers on the Government-wide Statement of Activities.
- The residual amount of Change in Net Assets after excluding the external and nonprogram activity must be allocated back to the government-wide functions. The percentages for the allocation will be based on the amount of internal revenue by State agency divided by total internal revenue. Each state agency will be assigned a function based on the largest functional expenditure per the ACTR 1419 report or the nature of the agency's enterprise funds. Below is a listing of the government-wide functions:

Governmental:

- General Government
- Education
- Transportation
- Resources and Economic Development
- Individual and Family Services
- Administration of Justice

Business-Type:

- State Lottery (Agency 172)
 - Virginia College Savings Plan (Agency 174 – Virginia Prepaid Education Program only)
 - Pocahontas Parkway Association
 - Unemployment Insurance (Agency 182, Fund 0700)
 - Other (other enterprise funds not listed)
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**External
activity**

Some examples of external parties include localities, corporations, and other non-state organizations. The following State agencies/institutions are considered an external party because they are either a discrete component unit, related organization, or State agency with primarily fiduciary funds.

- Higher Education Institutions (various agency codes)
- Innovative Technology Authority (agency #934)
- Small Business Financing Authority (agency #325 - funds 0243, 0901, 0921, 0930, 0956, 0957)
- Southwest Virginia Higher Education Center (agency #948)
- Tobacco Indemnification and Community Revitalization Commission (agency #851)
- Virginia Baseball Stadium Authority (agency #854)
- Virginia College Building Authority (agency #941)
- Virginia Economic Development Partnership (agency #310)
- Virginia Port Authority (agency #407)
- Virginia Retirement System (agency # 158 - all funds)
- Virginia Tobacco Settlement Foundation (agency #852)
- Virginia Tourism Authority (agency #320)

**Internal
activity**

Internal parties are most State agencies **except** for Higher Education institutions, other discrete component units, related organizations, and agencies with primarily fiduciary funds.

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**Spreadsheet
instructions for
internal activity
(part 1)**

In order to identify the internal activity that must be eliminated from the CAFR, follow these instructions.

Note: This spreadsheet has listed the State agencies that are considered internal parties and their functions. This spreadsheet is sorted in agency # order.

<i>Step</i>	<i>Action</i>
-	Record the contact information. A separate spreadsheet must be prepared for each internal service fund specifically identified on Instructions – Page 2.
1	<p>Record the amount of revenue that has been reported on the Statement of Revenues, Expenses, and Changes in Fund Net Assets template that was received and / or will be received (receivable) from each internal party.</p> <p>Note: Some agencies are completely business-type agencies. Other agencies have one or more funds that are business type. Agencies that have governmental and business-type activity are listed on the spreadsheet twice. One line item is to report revenue received from the governmental funds of the agency. The second line item is to report revenue received from the business-type funds of the agency.</p>
2	The percentages on the worksheet are automatically calculated by a formula (internal activity revenue by agency / total internal activity revenue). After all amounts have been keyed in, the total of the percentage column should equal 100%.
3	Record the amount that is included in Step 1 that is also included in the receivable amount reported on the Statement of Net Assets template from each internal party.

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Spreadsheet instructions for internal activity (part 1), continued

Calculation of Percentages by Function:

After all information has been entered for Part 1, this information needs to be copied to another spreadsheet to sort and subtotal by function. Below are suggestions for calculating this information. This new spreadsheet does not have to be sent to DOA. Retain for the Auditor of Public Accounts to review.

-	<p>Copy the rows of information as follows:</p> <ul style="list-style-type: none">• Highlight the header row and rows of information.• Use the edit / copy / paste special / values menu item to copy the information to a new spreadsheet. <p>Note: The paste special/values menu item allows the cells to be copied as values rather than formulas.</p> <ul style="list-style-type: none">• Use the data / sort menu item to sort the spreadsheet by the function column.• Use the data / subtotal menu item to get subtotals for the revenue column and percentage column. The subtotals should be for the following functions: <p>Governmental: General Government Education Transportation Resources and Economic Development Individual and Family Services Administration of Justice</p> <p>Business-Type: State Lottery Virginia College Savings Plan Pocahontas Parkway Association Unemployment Insurance Other</p> <p>Note: These percentages will be used in Part 3, Step 6 (see Instructions – Page 10). Maintain this documentation for the Auditor of Public Accounts to review.</p>
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**Spreadsheet
instructions for
external
activity (part 2)**

In order to identify the external activity that must be recorded in the Government-wide Statement of Activities, follow these instructions.

Note: This spreadsheet has listed the State agencies that are considered external because they are either a discrete component unit, related organization, or a State agency with primarily fiduciary funds. This spreadsheet is sorted by Agency # under each change in function.

<i>Step</i>	<i>Action</i>
-	Insert the contact information. A separate spreadsheet must be prepared for each internal service fund specifically identified on Instructions – Page 2.
1	Record the name of other external parties that are not considered State agencies. This starts on row 84. Note: HIF should report Retiree premiums here. Note: Revenues from localities can be combined into one amount.
2	Record the amount of revenue that has been reported on the Statement of Revenues, Expenses, and Changes in Fund Net Assets that was received and / or to be received (receivable) from each external party.
3	This cell is a formula that calculates the total amount of external revenue by function and total external activity revenue. This amount will also be recorded in Part 3, Step 4 (see Instructions – Page 10).

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**Spreadsheet
instructions for
conversion to
government-
wide statement
of activities
(part 3)**

In order to convert the Statement of Revenues, Expenses, and Changes in Fund Net Assets to the Government-wide Statement of Activities, follow these instructions. Also, the 1st Implementation Guide for GASBS No. 34, exercise 4 on pages 224-231 gives an example for filling out this spreadsheet.

<i>Step</i>	<i>Action</i>
-	Insert the contact information. A separate spreadsheet must be prepared for each internal service fund specifically identified on Instructions – Page 2.
1	Record the total “Change in Net Assets” from the Statement of Revenues, Expenses, and Changes in Fund Net Assets template.
2	Record activity that corresponds to non-operating line items. This activity will be excluded from the amount to be allocated to the program line items in step 6. Therefore, revenue items are shown as a negative amount (subtract from the “Change in Net Assets”) and disbursement items are shown as a positive amount (add back to the “Change in Net Assets”).
3	This cell subtotals the amounts from steps 1 and 2. It is a formula. This subtotal represents the amount that must be assigned to functions.

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Spreadsheet instructions for conversion to government-wide statement of activities (part 3), continued

<i>Step</i>	<i>Action</i>
4	<p>Record revenues and expenses from external activity by function. External activity includes revenue from external parties and the related expenses. This activity will be excluded from the amount to be allocated to the program line items in step 6. Therefore, revenue is shown as a negative (subtract from the “Change in Net Assets”) and expenses are shown as a positive line item (add back to the “Change in Net Assets”).</p> <p>The external activity revenue amount is determined in Part 2. The expenses related to these revenues must be determined. One way to calculate expenses is to take the external activity revenue amount less the markup % amount. For example, if total external sales are \$100,000 and the markup % is 10%, then the expenses would be \$90,000. Each agency must document how these expenses are determined and maintain that documentation for the Auditor of Public Accounts to review.</p>
5	<p>This cell is a formula and subtotals the amounts from steps 3 and 4. This subtotal represents the amount that must be allocated among the Commonwealth's programs.</p>
6	<p>Enter the allocation percentages as determined in Part 1 on Instructions – Page 7. The spreadsheet has a formula to calculate the amount to allocate to each of the functions.</p>

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Spreadsheet instructions for conversion to government-wide statement of activities (part 3), continued

<i>Step</i>	<i>Action</i>
7	Record amounts not allocated to functions (amounts determined in steps 2 and 4) in accordance with how the net amount was allocated to the functions in step 6. For example, if most of the allocation is to governmental functions, record these items in the governmental activity column. (Revenues should be a positive and expenses should be a negative.) If most of the allocation is to business-type programs, record these items in the business-type activity column.
8	Record amounts allocated to functions in the proper column – governmental activities or business-type activities.
9	<p>Answer yes or no to the three questions on page 2 of this spreadsheet.</p> <ul style="list-style-type: none">• The Change in Net Assets in Step 1 should equal the Change in Net Assets on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.• The total allocation amounts in the governmental activities plus the business-type activities columns should equal the change in net assets recorded in step 1.• The total of the percentages in step 6 should equal 100%. <p>If these amounts do not agree, investigate differences and revise the spreadsheet as deemed necessary to bring the amounts into agreement.</p>

**Spreadsheet
instructions for
control sheet
(part 4)**

Complete Control Sheet (Part 4). This worksheet is self-explanatory.

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